MARKET SNAPSHOT | **BEEF**

China

China is a large, complex country with significant regional cultural variation, requiring a sophisticated market segmentation approach to identifying and developing opportunities for Australian beef. Demand for imported beef is forecast to grow as the number of wealthier consumers in larger cities increases.

Challenges and opportunities in China for Australian beef:

- Despite slowing economic growth, consumer demand for premium imported beef is expected to continue to grow, driven by increasing urbanisation, disposable incomes, premiumisation and health awareness.
- Whilst beef generally contributes a small share of dietary protein compared to fish and pork, wealthier consumers eat more beef than average and spend more on it when they buy it.
- Beef is traditionally used in a variety of stir fry, stew, soup and hot pot dishes.
- China's retail sector is the largest globally (based on retail sales) but is among the world's most fragmented.
- China's beef market is very competitive and import demand very price-sensitive, though more so at the commodity than the premium end of the market.
- Whilst ChAFTA* is reducing tariffs on Australian beef, improving market access remains a priority, particularly for chilled.

** China-Australia Free Trade Agreement*

Population

1,382 in 2016 **1,403** in 2020

In million

Source: *BMI Research, 2016 estimate & 2020 projection*

Households earning US$15000+ p.a.

61.8 in 2016 **102.9** in 2020

In million households

Source: *BMI Research, 2016 estimate & 2020 projection*

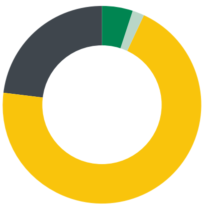
Households earning US$35000+ p.a.

7.9 in 2016 **15.4** in 2020

In million households

Source: *BMI Research, 2016 estimate & 2020 projection*

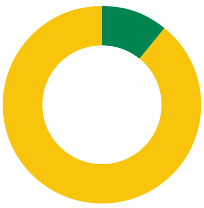
Australian beef exports – volume



Total 94,040 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2016

Australian beef exports – value



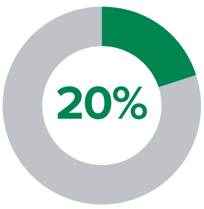
Total A$ 737.3 million

Source: GTA, MAT (Moving Annual Total) November 2015 to October 2016

Proportion of key cuts

Source: DAWR, CY 2016

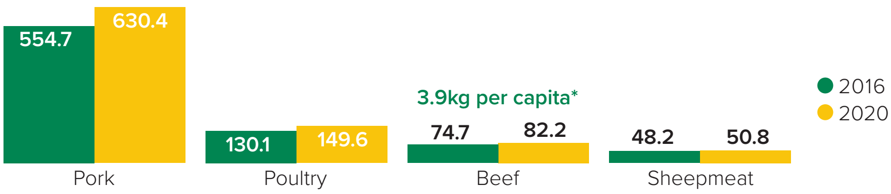
Australia's share of direct imports



Source: GTA, MAT October 2015 to November 2016

Meat consumption

49.9kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, GIRA, 2016 estimate and 2020 projection

** 2016e per person per year* *** excluding fish/seafood*
Source: FAO-OECD

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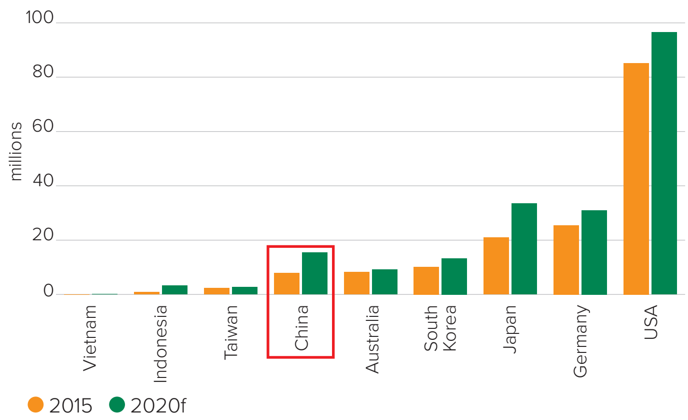
Consumers

- China is a country of great regional cultural diversity and variation in consumption habits and preferences. Considering cuisine alone, there are at least 8 official Chinese cuisines with distinct characteristics.
- Despite being the most populous country in the world, the number of consumers who can regularly afford to buy imported beef is comparatively small, although their number will double over the next 5 years.

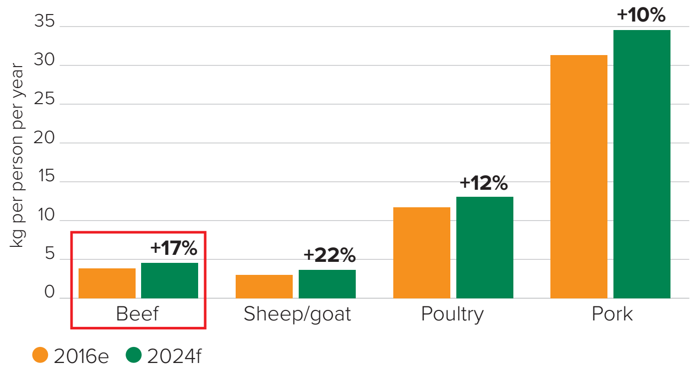
Number of households earning >U$35,000 p.a.



Source: BMI Research

- Per capita beef consumption in China is small relative to other proteins but is forecast to continue to gradually increase.

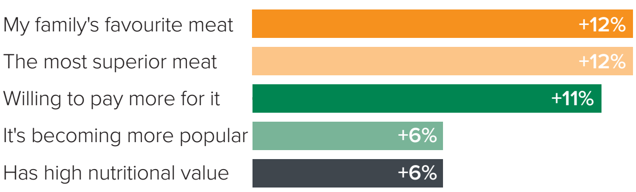
China per capita protein consumption trends



Source: FAO-OECD

- Whilst pork and chicken appeal for their low price, versatility and convenience, consumers consider beef a premium protein.

Perceptions of beef vs average of all other proteins



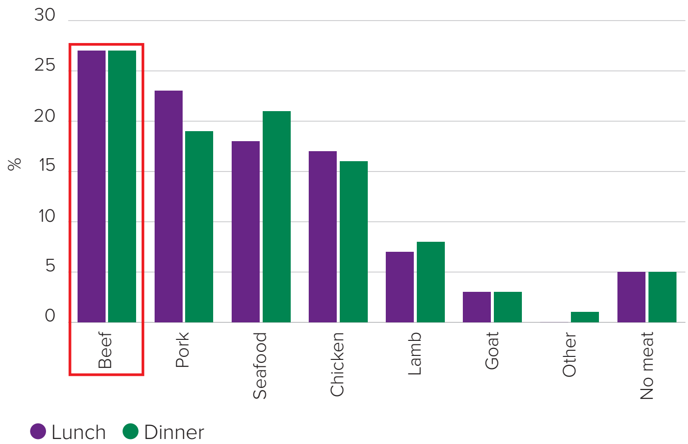
Source: MLA Global Consumer Tracker, 2016

- Beef and beef offal have traditionally been used in a variety of stir fry, stew, soup and hot pot recipes. In urban upper middle class households, there is increasing trial of western style steaks and burgers.
- Affluent consumers appreciate Australian beef and recognise it offers advantages that are worth paying more for, such as safety and consistent quality standards as well as its superiority when it comes to taste and nutritional value.

Foodservice

- Australian beef has a strong, established presence in China's premium western-style foodservice sector, as well as some up-scale hot pot restaurant chains, where differentiation based on quality and country of origin is important. Some product is used in mid-level western and Chinese style restaurants as well as some Western QSR chains.
- Due to lower familiarity with how to cook beef, particularly western-style steak type cuts, beef comprises a significant proportion of protein for meals eaten out.

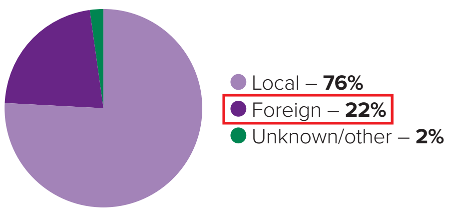
Meats eaten out for lunch and dinner



Source: MLA Global Consumer Tracker, 2016

- Eating beef out at restaurants is also a chance for consumers to try different cuisines.

Cuisine of last beef dinner meal eaten out

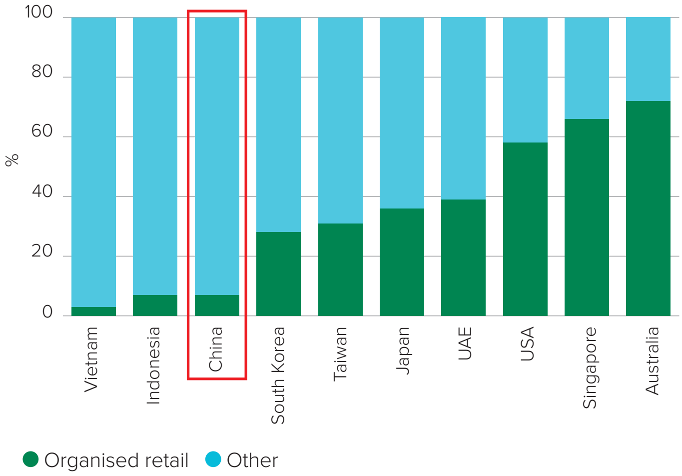


Source: MLA Global Consumer Tracker, 2016

Retail

- Despite its size – ranking globally No. 1 in total retail sales (valued at U$1,231.3bn in 2017f) – China's grocery retail sector is very fragmented *(Source: IGD)*.

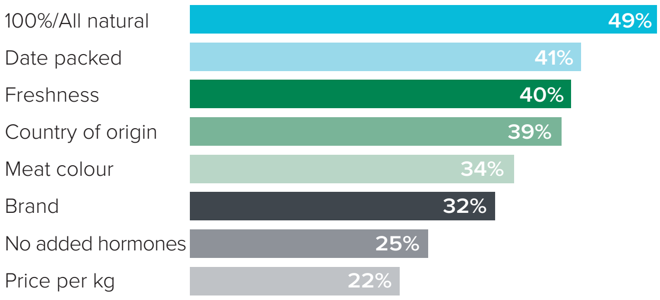
Market share of total grocery retail – 2017f



Source: IGD

- Australian beef has a strong, established presence in the specialist high-end retail sector in Tier 1 cities, such as Beijing, Shanghai, Guangzhou and Shenzhen. It has a smaller footprint in the large modern hypermarket sector, where there are growing opportunities. Chinese supermarket chains and wet markets are dominated by domestic product.

Top things look for on-pack when buying beef



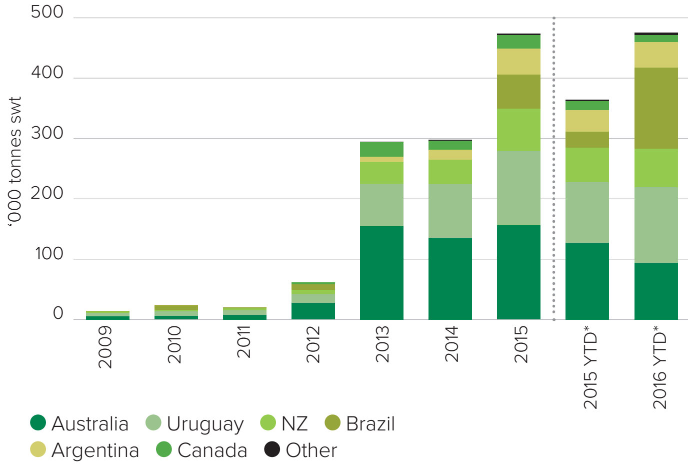
Source: MLA Global Consumer Tracker, 2016

- E-commerce is a well-developed channel in China, particularly for apparel, personal care and electricals and through which a variety of frozen and manufacturing beef products are being sold. Challenges with cold chain management remain significant for fresh food, including higher-end beef product.

Other suppliers

- The China beef market is a very competitive one and will become increasingly so as more countries are granted access.
- China has one of the world's largest beef cattle herds, estimated at 50.7 million head in 2015 *(Source: GIRA)*, with domestic beef production expected to see continued but slow growth in the coming years *(Source: BMI research, GIRA)*.
- Direct beef imports comprised around 9% of the beef consumed in China in 2015. In 2016, the volume of direct imports grew 31% (YTD Jan-Oct), highlighting strong demand.
- Key competitors for frozen beef:
  - – Brazil re-gained access to China mid-2015, and in 2016 already supplied almost 30% of imported frozen beef.
  - – Uruguay has been a consistently significant supplier to China, with volumes increasing during 2016.
  - – NZ and Argentina are secondary suppliers.

China beef imports



Source: GTA, China Customs
**YTD Jan-Oct*

Trade access

- Market access work is complex, time-consuming and challenging and is a high priority for Australia.
- Australia has made some significant market access gains in the China beef market since 2012. Australia has favourable access for chilled product, however several access issues that constrain trade remain.
- The key issues that remain a priority for Australia to resolve relate to the limited number of plants approved to export to China (particularly for chilled beef) and restrictions on offal exports.

Live exports

- Australia and China signed the live feeder and slaughter cattle protocol in September 2015. There has been limited trade to-date due to protocol complexity with 150 head exported to China in 2015 and 338 head in 2016 *(Source: DAWR, ABS)*.
- China is an important market for Australian live breeder and dairy cattle exports. In 2016, 90,758 head of beef and dairy breeder cattle were exported, a 2% increase on 2015 *(Source: DAWR, ABS)*.

Market Access Overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ChAFTA China-Australia Free Trade Agreement (entered into force 20 December, 2015)	**Under ChAFTA: 2017:** • Chilled bone-in/ boneless meat: 8.4% • Chilled carcases/ half-carcases: 14% • Frozen bone-in/ boneless meat: 8.4% • Frozen carcases/ half carcases: 17.5% • Chilled offal: 4.8% • Frozen offal: 4.8-11.3% **2024:** Zero	**NZ:** Zero tariffs from Jan 2016 **Brazil, Uruguay, Argentina, Canada & US:** • 12% tariff on meat • 20% on chilled carcases/ half carcases • 25% on frozen carcases/ half carcases	**Under ChAFTA:** • “Trigger” levels for beef have been set until 2024, where additional customs duty will apply • 2017 “trigger” volume is 170,000 tonnes swt	Restrictions on the number of export-approved plants, chilled plants and edible offals.

Best access — Major challenges

Source: Trade agreements, DFAT, MLA
NB: China applies a 13% VAT on most items (muscle cuts, offal) and 17% on processed

Australian beef exports to China – summary table

volume – in tonnes swt

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	change 2016 vs 5-yr av. %	change 2016 vs 5-yr av. in tonnes swt
Total		**94,040**	**100**	**148,222**	**100**	**93,660**	**100**	**0**	**380**
by storage	Chilled	6,526	7	6,998	5	5,145	5	27	1,381
	Frozen	87,514	93	141,225	95	88,515	95	-1	-1,001
by meat type	Grassfed	70,483	75	126,592	85	81,327	87	-13	-10,844
	Grainfed	23,557	25	21,630	15	12,333	13	91	11,224
by storage/ meat type	Chilled grassfed	4,656	5	6,205	4	4,249	5	10	408
	Chilled grainfed	1,870	2	792	1	896	1	109	974
	Frozen grassfed	65,827	70	120,387	81	77,079	82	-15	-11,252
	Frozen grainfed	21,687	23	20,838	14	11,436	12	90	10,251

Source: DAWR

value – in A$ 000

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in A$ 000
Total		**737,327***	**100**	**1,005,573**	**100**	**518,229**	**100**	**42**	**219,099**
by storage	Chilled	80,915*	11	71,221	7	44,608	9	81	36,308
	Frozen	656,412*	89	934,352	93	473,621	91	39	182,791

Source: ABS/GTA. 2016 = Moving Annual Total (MAT), November 2015 to October 2016.*

volume – by major cut (in tonnes swt)

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in tonnes swt
Brisket	21,689	23	32,257	22	19,329	21	12	2,360
Shin/Shank	13,565	14	15,384	10	13,581	15	0	-16
Manufacturing	13,071	14	12,656	9	7,051	8	85	6,020
Silverside/Outside	6,813	7	14,266	10	9,006	10	-24	-2,194
Blade	6,124	7	10,717	7	6,459	7	-5	-336
other	32,779	35	62,941	42	38,234	41	-14	-5,455
Total	**94,040**	**100**	**148,222**	**100**	**93,660**	**100**	**0**	**380**

Source: DAWR

Australian BEEF OFFAL exports to China – by major cut (in tonnes swt)

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in tonnes swt
Heart	1,643	37	1,970	44	1,197	35	37	446
Tendon	1,618	37	1,530	34	1,481	44	9	137
other	1,146	26	1,005	22	704	21	63	442
Total	**4,407**	**100**	**4,505**	**100**	**3,382**	**100**	**30**	**1,025**

Source: DAWR

value – in A$ 000

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in A$ 000
Total	**27,400***		**23,832**		**19,823**		**38**	**7,576**

Source: ABS/GTA. 2016 = Moving Annual Total (MAT), November 2015 to October 2016.*